

## Message Text

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ACTION EB-07

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-06 NEA-09 ISO-00

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

FEAE-00 FPC-01 H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05

OMB-01 PM-03 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00

FRB-03 PA-01 PRS-01 USIA-06 /121 W

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R 290820Z APR 75

FM AMEMBASSY TRIPOLI

TO SECSTATE WASHDC 2173

INFO AMEMBASSY BEIRUT

AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TUNIS

AMEMBASSY VIENNA

C O N F I D E N T I A L TRIPOLI 0507

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: LIBYA AND OCCIDENTAL PETROLEUM CORP.

1. SUMMARY. OCCIDENTAL'S LIBYAN SALES AND POSSIBLE  
NATIONALIZATION HAVE BEEN RECEIVING INTERNATIONAL  
PRESS ATTENTION. HOWEVER, INITIATIVE FOR NATIONALI-  
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ZATION COMES NOT FROM LIBYANS BUT FROM OCCIDENTAL.

OCCIDENTAL WOULD GAIN FROM SUCH A CHANGE, BUT LIBYA IS RESISTING BECAUSE IT SEES LOSSES COMING FROM SUCH ARRANGEMENT. OXY OFFICIALS STATE PRESENT AGREEMENT CANNOT LAST INDEFINITELY. OXY'S SUPPOSED LOSSES WERE HIGHER THAN PRESS REPORTS INDICATE. END SUMMARY.

2. ASSOCIATED PRESS-DOW JONES DESPATCH 21 APRIL DATELINED LOS ANGELES REPORTS THAT LIBYA IS ASKING FOR "FURTHER NATIONALIZATION AND PARTICIPATION" IN OCCIDENTAL'S LIBYAN OPERATIONS. SAME REPORT AND PIW ISSUES APRIL 14 AND 21 RELATE OCCIDENTAL LIFTING CRUDE AT "LESS THAN AVERAGE COST TO PRODUCERS".

3. FOR MORE THAN TWO MONTHS OCCIDENTAL HAS BEEN PROPOSING TO LIBYAN MINPETROLEUM MABROUK THAT LIBYA NATIONALIZE (WITH COMPENSATION) OCCIDENTAL'S OPERATION HERE. OCCIDENTAL WOULD CONTINUE ITS OPERATION UNDER SERVICE CONTRACT, RECEIVING PAYMENT FOR ITS SERVICES EITHER IN FIXED CHARGE PER BARREL PRODUCED OR IN QUANTITIES OF CRUDE.

4. OCCIDENTAL SEES NUMBER OF ADVANTAGES IN SUCH ARRANGEMENT: (A) LIBYA IS NOT AND WILL NOT FORESEEABLY PERMIT MARGIN WHEREIN OCCIDENTAL CAN MAKE MORE THAN SLIMMEST PROFITS HERE, AND CLOSENESS OF MARGIN WILL FREQUENTLY PUT COMPANY'S OPERATIONS IN THE RED. (B) TAXES OCCIDENTAL PAYS TO LIBYA NO LONGER GARNER OFF-SHORE OFFSETTING TAX ADVANTAGES. (C) HEADACHES IN MARKETING HIGH PRICED LIBYAN OIL IN THIRD-PARTY MARKETS ARE GREATER THAN BENEFITS. (D) OCCIDENTAL IS NOT GETTING SUFFICIENT RETURN ON INVESTMENT.

5. ON OTHER HAND LIBYA IS HESITATING AT OXY'S OFFER. APRT FROM POLITICAL-PRESTIGE CONSIDERATIONS, SOME COMMERCIAL DISADVANTAGES WOULD ACCRUE FROM NATIONALIZATION: (A) LIBYA IS HAVING GREAT DIFFICULTIES IN SELLING NATIONALIZED OIL IT ALREADY HAS. (FOREIGN OIL MEN HERE ARE UNANIMOUS IN REFERRING TO LIBYA'S 11 FEBRUARY 1974 NATIONALIZATION OF AMOSEAS AS "A MISTAKE AND A WASTE".) (B) LIBYA'S INCREASING-CONFIDENTIAL

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LY DIFFICULT CASH POSITION WOULD BE FURTHER ERODED BY PAYING LARGE COMPENSATION. (C) OTHER COMPANIES IN LIBYA MAY ASK LATER FOR SIMILAR ARRANGEMENTS. FOR THESE REASONS WE BELIEVE OCCIDENTAL'S REQUEST WILL BE DELAYED INDEFINITELY. HOWEVER, OXY OFFICIALS HAVE SAID THAT IN CHANGING PETROLEUM SCENE IT IS "RECKLESS" TO ASSUME THAT 51-49 ARRANGEMENTS MADE IN AUGUST 1973 WILL REMAIN STATIC FOR LONG.

6. REFERENCE REPORTS STATE OCCIDENTAL WAS SELLING CRUDE AT \$10.70 WHILE "AVERAGE LIFTING COSTS" WERE \$11.20, FOR NET LOSS OF 50 CENTS PER BARREL. \$11.20 LIFTINGS COSTS ARE FOR ES-SIDER CRUDE; OCCIDENTAL'S COSTS ARE 20-25 CENTS HIGHER THAN ES-SIDER AND OXY'S LOSS WOULD THUS BE IN 70-75 CENT RANGE.

7. INDUSTRY OBSERVERS HERE STATE THERE ARE THREE AND ONLY THREE REASONABLE EXPLANATIONS FOR OCCIDENTAL'S WILLINGNESS TAKE TEMPORARY "LOSS" ON ITS LIFTINGS: (A) "ROLL-OVER ULTRA-SHORT TERM (LESS THAN 30-DAY) MONEY WITH 90-DAY (OR LONGER) LIBYAN CREDIT ON ITS ACCOUNTS; (B) ASSURANCES FROM LIBYAN GOVERNMENT TO OCCIDENTAL THAT TAX-PAID-COSTS WILL BE SIGNIFICANTLY LOWER IN VERY NEAR FUTURE, THUS ENABLING OCCIDENTAL TO MAKE SALES CONTRACTS IN \$10.70 RANGE THAT WOULD PROVIDE PROFITABLE MARGINS AFTER TWO OR THREE MONTHS; OR (C) LIBYA PROVIDING LIMITED QUANTITY OF OIL AT PRESENTLY LOWER TAX-PAID-COST TO ENABLE OCCIDENTAL TO INCREASE NEAR TERM LIFTINGS.

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM INDUSTRY, NATIONALIZATION, COMPENSATION, ECONOMIC STABILITY  
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**Copy:** SINGLE  
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**Disposition Approved on Date:**  
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**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
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